



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: Representatives Howard, Setzer, and Szoka
Analyst(s): Travis Allen *Travis Allen*
RE: Proposed Committee Substitute H402-CSSVxfr-18 [v.1]

SUMMARY TABLE

Fiscal Impact of PCS to H.B. 402 (\$ in millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue	-	-	-	-	-
<u>Less Expenditures</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Fund Impact	No Fiscal Impact				

NET STATE IMPACT	No Fiscal Impact
-------------------------	-------------------------

FISCAL IMPACT SUMMARY

The Proposed Committee Substitute (PCS) to House Bill 402 authorizes the campuses of the University of North Carolina (UNC) to finance and construct capital improvement projects utilizing obligated resources. The PCS does not require any State Appropriation.

FISCAL ANALYSIS

The PCS to House Bill 402 authorizes the campuses of the University of North Carolina (UNC) to finance and construct capital improvement projects utilizing obligated resources. The projects are discussed below.

The statutory framework to authorize and issue debt lies within Article 3 of G.S. 116D. Under this Article, obligated resources refers to: rents, charges, or fees; earnings on investments of endowment funds, overhead receipts, and other resources that do not include tuition or appropriations from the General Assembly. UNC is authorized to change, with approval of the Director of the Budget, the means of finance for the projects authorized in the PCS and increase or decrease the cost of the project. UNC is allowed to issue debt of up to 5% of the total cost of the project, including any increase authorized by the Director of the Budget, to cover various costs of issuance of the debt. The proposed indebtedness authorized under this PCS is not a debt of the State.



Table 1 provides information on the projects within Section 2 of this PCS and provides the proposed sources of funding. Article 3 of G.S. 116D authorizes all obligated resources to be used as means of repayment and does not limit the source of funding to those presented in the table below. If an existing fee or receipt is to be used, the table identifies the fee and any annual increase associated with the fee.

Table 1: Campus Project Information

Campus	Project	Amount	Revenue Source
UNCW	Southeast Dining Facility	\$14 m	Existing dining fees – no fee increase.
WCU	Lower Campus Residence Facility	\$60 m	Existing housing fees – no fee increase.
UNCSA	New Residence Hall	\$46 m	Housing Fees – anticipated academic year increase between \$1420-\$2620.

In addition to this new debt, these campuses have existing debt that has been authorized under Article 3 of G.S. 116D and Part 4 of G.S. 116 (Revenue Bonds). Table 2 summarizes this outstanding debt, along with annual debt service payment information and revenue available to support debt service, estimated for FY 2018-19, for the campuses impacted by this bill. The source of information of all debt related information is the 2018 University of North Carolina Debt Capacity Study, as required by Article 5 of G.S. 116D.

Table 2: Existing Debt Information: FY 2018-19

Campus	Outstanding Debt	Debt Service Payment	Expendable Resources
UNCW	\$186.9 m	\$15.7 m	\$173.6 m
WCU	\$154.6 m	\$9.1 m	\$144.9 m
UNCSA	\$4.2 m	\$0.5 m	\$53.6 m

Each campus receives a bond rating from the various bond rating agencies, and these ratings are summarized in Table 3. The most widely used agencies are Moody's Investor Services (Moody's), Fitch Ratings (Fitch), and Standard and Poor's Global Ratings (S&P). A bond rating reflects the credit quality of an entity, or its ability to make timely principal and interest (i.e., debt service) payments. The rating agency also gives an "Outlook" with the rating. This factor is the agency's estimate of how the rate will change in the future. A positive outlook means that the rating is likely to be upgraded in the future. A negative outlook means that the rating is likely to be downgraded in the future. A stable rating means the agency anticipates no change to the rating in the future.

Moody's is the only agency that rates any of the campuses covered in this note, although Moody's does not provide a rating for UNCSA.

Table 3: Selected Campus Bond Rating Information

Campus	Moody's	
	Rating	Outlook
UNCW	Aa3	Stable
WCU	Aa3	Stable
UNCSA	-	-

G.S. 116D-56 requires UNC to study each constituent institution's debt and ability to incur debt over the next five fiscal years. Table 4 presents the debt capacity for each constituent institution for FY 2019-20 to FY 2022-23. Debt capacity is a measure of the campus's debt to obligated resources ratio. The UNC Debt Affordability Study recommends a ratio of no higher than 2.00. If a campus has a ratio of debt to obligated resources that is above 2.00, the debt capacity in the table below will show a negative value. Debt capacity is a limited metric and does not equate to debt affordability. Debt capacity is a general indicator of the school's ability to take on more debt. Table 4 does not reflect debt proposed in this Bill or associated revenue to support debt service. The debt capacity shown in each year assumes no additional debt is issued prior to that year.

Table 4: Selected Campus Debt Capacity Information

Campus	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
UNCW	\$178.5 m	\$195.3 m	\$213.0 m	\$231.1 m
WCU	\$168.3 m	\$181.1 m	\$194.2 m	\$207.7 m
UNCSA	\$41.3 m	\$42.5 m	\$43.7 m	\$44.9 m

University of North Carolina at Wilmington

The PCS allows UNCW to issue \$14 million in debt to construct a new 20,000 sf (+/-) dining facility to address the growing student population. This dining facility is designed specifically to target the on-campus student population, which has increased almost 100% in the last 10 years. Of the planned \$14 million project budget, \$10.9 million is related to direct construction, \$1.8 million to design and contingencies, and \$1.3 million to furniture and equipment.

Table 5: UNCW New Dining Facility*

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Expense					
Debt Service	\$0	\$0	\$0.7 m	\$0.7 m	\$0.7 m
Operating Expense	\$16.7 m	\$17.9 m	\$18.6 m	\$19.2 m	\$19.8 m
<i>Total Expenses</i>	<i>\$16.7m</i>	<i>\$17.9 m</i>	<i>\$19.3 m</i>	<i>\$19.9 m</i>	<i>\$20.5 m</i>
Revenue					
Dining Receipts	\$18.6 m	\$20.1 m	\$20.8 m	\$21.4 m	\$22.1 m
<i>Total Revenue</i>	<i>\$18.6 m</i>	<i>\$20.1 m</i>	<i>\$20.8 m</i>	<i>\$21.4 m</i>	<i>\$22.1 m</i>
Change in Campus Fund Balance	\$1.9 m	\$2.2 m	\$1.5 m	\$1.6 m	\$1.6 m

* Totals may not add due to rounding.

Western Carolina University

The PCS allows WCU to issue \$60 million in debt for a proposed project consisting of three new residence halls totaling 800 beds and 200,400 sf (+/-) designed to address the aging residence halls that are scheduled to be demolished and replaced to accommodate future growth. This project will add inventory as well as allow swing space for relocating students into a new facility. Of the planned \$67 million (\$7 million is to be paid via the University's housing reserves) \$3.7 million is for site work, \$46.1 million is related to direct construction costs, \$5.4 million for furniture and equipment, \$8 million for the design and contingencies, and \$9.2 million for project escalation costs.

Table 6: WCU New Lower Campus Residence Hall*

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Expense					
New Debt Service	\$0	\$2.9 m	\$3.3 m	\$3.9 m	\$3.9 m
Operating Expense	\$18.3 m	\$18.6 m	\$15.4 m	\$17.8 m	\$27.3 m
<i>Total Expenses</i>	<i>\$18.3 m</i>	<i>\$21.5 m</i>	<i>\$18.7 m</i>	<i>\$21.7 m</i>	<i>\$31.2 m</i>
Revenue					
Housing Receipts	\$26.3 m	\$26.8 m	\$27.4 m	\$33.6 m	\$34.3 m
Revenue #2	\$0.2 m	\$0.2 m	\$0.2 m	\$0.2 m	\$0.2 m
<i>Total Revenue</i>	<i>\$26.5 m</i>	<i>\$27.0 m</i>	<i>\$27.5 m</i>	<i>\$33.8 m</i>	<i>\$34.4 m</i>
Change in Campus Fund Balance	\$8.2 m	\$5.5 m	\$8.8 m	\$12.0 m	\$3.2 m

* Totals may not add due to rounding.

University of North Carolina School of the Arts

The PCS allows UNCSA to issue \$46 million in to construct a new 444-bed residence hall located on the current Bailey Street Apartment site. The new facility will replace Residence Halls A-F (288 beds) and Bailey Street Apartments (92 beds). UNCSA currently offers 52% traditional-style, 0% suite-style, and 48% apartment-style housing for its student population. By comparison, peer



institutions offer an average 26% traditional-style, 26% suite-style and 38% apartment-style. Suite-styles are more popular across higher education because of enhanced privacy and efficiency compared to other styles.

According to UNC General Administration, UNCSA rental rates are significantly lower than peer schools with rates at 43.9% and 47.2% below peer averages for traditional-style and apartment-style, respectively. On average, housing rental rates at peer schools are 31% higher than UNCSA on-campus housing rates for comparable units. Peer institutions are investing in housing to help recruit and retain students and UNCSA is competing for the same students as a nationally-recognized top-ranked creative and performing arts conservatory. The 2018-2019 academic year also was the highest enrollment of full-time undergraduates and full-time graduates over a five-year period with a 25% increase over the 2017-2018 academic year.

Table 7: UNCSA New Residence Hall*

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Expense					
New Debt Service	-	-	-	\$2.0 m	\$2.0 m
Operating Expense	\$3.5 m	\$3.6 m	\$3.7 m	\$3.8 m	\$3.9 m
HVAC Replacement	\$2.3 m	-	-	-	-
<i>Total Expenses</i>	<i>\$5.8 m</i>	<i>\$3.6 m</i>	<i>\$3.7 m</i>	<i>\$5.8 m</i>	<i>\$5.9 m</i>
Revenue					
Housing Receipts	\$4.5 m	\$4.7 m	\$4.8 m	\$4.9 m	\$5.1 m
<i>Total Revenue</i>	<i>\$4.5 m</i>	<i>\$4.7 m</i>	<i>\$4.8 m</i>	<i>\$4.9 m</i>	<i>\$5.1 m</i>
Change in Campus Fund Balance	(\$1.2 m)	\$1.1 m	\$1.1 m	(\$0.8 m)	(\$0.8 m)

* Totals may not add due to rounding.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

UNC Debt Affordability Study; UNC General Administration.

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

